ECONOMIC PROBLEM OF THE SOUTHEAST

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When the Federal Government recently appropriated billions of dollars for the European Recovery Program, businessmen in general were quick to sense the beneficial effects of such legislation upon the demand for their products. Many of them rushed to Washington to solicit foreign orders for their wares. In the meantime, a vast potential domestic market has been sorely neglected. If every inhabitant of the Southeastern section of the United States were to attain a standard of living comparable to the average for the balance of the nation, there would be created an additional demand for at least $13 billion of goods and services annually, much of which would mean business for other sections of the country. Such a figure is far in excess of our total foreign exports in any peacetime year, let alone the specific orders that may result from our present foreign spending.

It would seem to be the practical concern of businessmen throughout the country that this market be developed. But such a possibility presents an economic problem of major proportions, one significant element of which is a present lack of capital funds and management ability in the region. It is the purpose of this article to analyze that general problem and to indicate the direction in which to seek solutions.

Discussion will be confined to the 11 states which comprise the Southeastern section of the United States: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia. Texas and Oklahoma are not included. Socially and economically, Texas and Oklahoma have little in common with the "Old South," and to include them would serve no purpose, except perhaps to obscure in part the genuine problems confronting the Southeast. Although as a matter of convenience the terms "South" and "Southern" will be used, they refer always to the 11 Southeastern states and not to the entire South.

Few areas of the world have been so richly endowed or have greater potentialities for prosperous development than the Southern region of the United States. In this section one finds four great resources: (1) a relatively young population, (2) abundant reserves of minerals and timber, (3) an adequate supply of fuel and newly developed hydroelectric power, and (4) productive land.

Through the years none of these resources has been fully utilized. Even agriculture, upon which this region has relied so heavily in the past, has lacked a proper degree of diversification. As a result, alternate periods of poverty and prosperity have had as serious an effect upon the agricultural economy of the Southeast as they have had on the "prince and pauper" heavy goods industries of the North. The degree to which the land has been devoted to food production (as contrasted with such crops as cotton and tobacco) is so slight that those with financial means have been compelled to "import" much of their food requirements from the North and West, while those who lack financial ability for buying the imported food suffer from malnutrition.

Even after allowing for the satisfactory war-born growth in Southern manufacturing, this region, containing 20% of the nation's population, accounted in 1946 for only 10% of total wages and salaries paid to industrial workers in the United States (which notwithstanding the South's lower wage rates gives a rough measure of its relative degree of industrialization). Hence, at least twice as much industrial activity as now exists in the South would be necessary in order to bring the region's industrial output up to the level of the balance of the nation.

As things have turned out, the South's abundant supply of raw materials has been a curse instead of a blessing. While other areas less favorably endowed have improved their economic position by making use of Southern resources, the South receives what in a very real sense is only partial payment for its rich natural wealth. Much of the Southern labor is utilized in the less remunerative extractive and initial processing stages of production which require less skill. All too frequently the more intricate manufacturing operations are undertaken only after the raw or semifinished product has been transported to a northern or western industrial center. Thus, the greatest rewards for the conversion of Southern

resources frequently go to highly skilled and highly paid nonSouthern workers. Is it any wonder, then, that Southern consumers often find it difficult to purchase manufactured goods produced from natural resources extracted from their own land?

The sooner the South can realize its rich natural endowment, the better for the country as a whole. What holds it back? What needs to be done? Analysis of the present status of the South appears to point to two major factors upon which its future in a great measure depends: (1) the character and size of the labor force, closely related to the growth of educational opportunities which now is retarded because the cost has been beyond the financial reach of the community, and (2) the volume and value of goods produced, which will be affected in turn by the amount of investment and the quality of management available.

Labor Force

The South has a population of about 30 million divided fairly evenly among the 11 states. In 1890 the South, with a population of 15 million, accounted for 24% of the nation's population. The growth in Southern population in the past quarter of a century, however, has been considerably slower than that for the entire nation, as shown in EXHIBIT I. Between 1920 and 1948 population in the Southern states increased by slightly more than 6.6 million, which represented only 17% of the increase for the continental United States; only 2 of the 11 Southern states (Florida and Virginia) reported population increases greater than the 9.2% gain indicated for the entire nation from 1940 to 1948. Thus by 1948 the Southeast's share of the total population was down almost to 20% — despite a relatively high birth rate. The extensive migration of the population from the South is a matter of common knowledge.

Looking closer, we see that there are proportionately more young boys and old men in the labor force of the South than are to be found in the working population of any other section of the United States, as can clearly be seen from the data in EXHIBIT II. The large number of youths is particularly striking. The reason for such a condition is twofold — a short education period, which results in the youths joining the working force earlier, and narrow social security coverage, which keeps men in the labor force longer.

According to the 1940 Census, education beyond the eighth grade was a privilege enjoyed by only one-third of the population. While the lack of facilities is partially responsible, the rural character of the population cannot be ignored. Rural education tends to lag behind urban education in many sections of the United States, and in the South the young are largely employed in agriculture. The old men too are mostly employed in agriculture and so do not enjoy the limited protection afforded by social security and unemployment insurance. Only half of the region's working population possess the financial means to retire from the labor force at age 65.

EXHIBIT I. Population Growth in the Southeast and in the United States, 1890-1947.

Year	11 Southeastern States — Total	% Increase Over Previous Census	United States — Total	% Increase Over Previous Census
1890	15,330	—	62,948	—
1900	18,074	17.9%	75,995	20.8%
1910	20,786	15.0%	91,972	21.1%
1920	22,860	10.0%	105,711	14.9%
1930	25,551	11.8%	122,775	16.2%
1940	28,261	10.6%	131,669	7.2%
1948 (est.)	29,490	4.3%	143,783	9.2%

Source: U.S. Department of Commerce, Bureau of the Census, Sixteenth Census of the United States, 1910: Population, Volume 1 (Washington, Government Printing Office, 1942. Estimate for 1948 from *Sales Management, Survey of Buying Power*, May 10, 1948.

Exhibit II. Male Labor in the Southeast. *Number in thousands (Percentage Distribution)*

Age Group	Southeast	North	West
All ages	8,029 (100%)	23,598 (100%)	4,379 (100%)
14–19	787 (9.8%)	1,279 (5.4%)	201 (4.6%)
20–24	1,140 (14.2%)	2,845 (12.1%)	513 (11.7%)
25–54	4,935 (61.6%)	15,559 (65.9%)	2,937 (67.1%)
55–64	772 (9.6%)	2,821 (12.0%)	542 (12.4%)
65+	385 (4.8%)	1,094 (4.6%)	186 (4.2%)

Source: Based on the Sixteenth Census of Population, 1940: *Population, The Labor Force, Employment and Personal Characteristics.*

Migration

The picture is accentuated by the alarming exodus of able-bodied workers. It has been estimated, for instance, that about one-seventh of the Southern servicemen mobilized in World War II did not return to that section upon discharge. Once the regional ties had been broken, the apparently greater economic opportunities existing in the North and West proved a powerful incentive in discouraging Southern servicemen from returning to their home states. Such redistribution of the labor force has serious implications for the entire nation. Not only is the South deprived of a portion of its working population which could be effectively utilized in a period of expansion, but in the event of depressed conditions the North and West would discover that their newly adopted workers added greatly to their unemployment problem.

The South has never experienced the influx of European labor which played such an important part in the industrial development of the North and the West. Between 1920 and 1930 the outmigration exceeded those entering the South by 130,000 a year. Even during the depression of the 1930s, the annual excess of out-migration over in-migration averaged 100,000. The rate of population loss was even greater after Pearl Harbor. From December

1941 through March 1945 the average annual net decrease in Southern population exceeded 250,000. During this 40-month period the South lost 1,630,000 individuals through out-migration and gained only 780,000 through a reverse flow of population.

The loss to the South is even greater than indicated by the numbers involved, for the largest proportion of the migrants during latter years have been under 35 years of age (see EXHIBIT III). Here is a group of men who spent childhood years in the South. About six-sevenths of the migrants had received an elementary education and three-eighths derived the benefits of high school training in the South. But their most productive years are being spent elsewhere.

EXHIBIT III. Age Distribution of Out-Migrants from the South, 1935–1940, by Sex.

Age Group	Total	Male	Female
Total (5+ yrs)	100%	100%	100%
5–13	16.8%	16.4%	17.2%
14–24	27.7%	26.3%	29.2%
25–34	26.8%	26.9%	26.6%
35–44	14.4%	15.4%	13.4%
45–54	7.9%	8.6%	7.1%
55+	6.4%	6.4%	6.5%

Source: Based on the Sixteenth Census of Population, 1940: *Population, Internal Migration (1935 to 1940), Age of Migrants.*

Labor, physical and mental, tends to seek that market where compensation in real wages is highest. The apparent lack of sufficient economic opportunities in the Southeast has certainly contributed to the exodus. Aggressive and farsighted young men go to other sections for advanced education and do not return. The situation is re-enforced by the fact that the rural South, in particular, feels strongly the nationwide tendency to lose young people to the cities — in this case, often cities in other regions.

An increase in the industrial development of the South and a wider diversification in the application of its energies should materially check migration. The increased regional income which would result from such development would have a settling influence on the population. Industry, including modern agriculture, needs trained technicians; young men trained in colleges and technical schools would be encouraged to stay in the South to aid in and reap the rewards of its development.

In spite of migration, the South has a labor force which from the standpoint of numbers is ample for this development of its own factories and farms. Persons employed or seeking employment number approximately 11 million. As a matter of fact, for the two decades prior to 1940 the South's labor force expanded more rapidly than did that of the North, as shown in EXHIBIT IV. And the larger proportion of youths makes its potential even greater. The role that education must play if the labor force is to become an actual reservoir of skilled manpower seems obvious.

EXHIBIT IV. Percentage Increase in Population and Labor Force, 1920–1940.

Region	Population Increase	Labor Force Increase
Southeast	27.6%	27.8%
North	20.3%	20.0%
West	35.9%	36.7%

Source: Derived from U.S. Department of Labor, *Monthly Labor Review*, Volume 63, Number 4 (October 1946), p. 491.

Regional Product and Income

Differences in income levels reflect differences in the economic activity of various sections of the country. The raising of income levels in one section of the country need not necessarily be accomplished at the expense of other regions. An increase in regional income for the South could be effected without lowering living standards in the North and West. As a result, total national income would rise, and the additional income would eventually be reflected in expanded consumption and higher profits for industry throughout the nation.

Per capita income in the South has been consistently below that of any other region of the United States, as demonstrated in EXHIBIT V. It is encouraging, however, to note that the income differential between the South and other parts of the country is constantly being reduced. Since 1929 Southern per capita income has been moving closer to the national average. From $344 in 1929 the per capita income rose to an all-time high of $883 in 1947. More significant, perhaps, is a comparison of Southern per capita income with that of the entire nation. In 1929 the average income received by a Southerner was only 51% of the average for the country as a whole. By 1947 Southern per capita income had risen 16 points closer to the national average.

South Carolina, which had the lowest per capita income in the nation in 1929, showed an increase from only 37% of the national average in 1929 to 59% in 1947. The smallest increase was reported by Mississippi, the only Southern state with 1947 per capita income less than 50% of the national average. Florida and Virginia both reported per capita income of approximately 80% of the average for the entire country; in each case 1947 income exceeded $1,000 per person.

Analysis of total income payments (see EXHIBIT VI) shows that the South benefited from wartime prosperity more than the nation as a whole. Increased industrial activity, the location of numerous military training camps in the region, and the rise in farm production and prices combined to lift income payments in the South from approximately 10% of the national total In 1929 to over 14% in 1945. The present level, although a little lower than in 1945, is still well above prewar levels.

EXHIBIT V. Differentials in Per Capita Income, 1929–1947. *Per Capita Income (% of National Per Capita Income).*

Area	1929	1940	1946	1947
U.S.	$680 (100%)	$575 (100%)	$1,213 (100%)	$1,323 (100%)
11 Southeastern States	$344 (51%)	$322 (56%)	$811 (67%)	$883 (67%)
Alabama	$305 (45%)	$268 (47%)	$739 (61%)	$837 (63%)
Arkansas	$305 (45%)	$252 (54%)	$701 (58%)	$710 (54%)
Florida	$484 (71%)	$471 (82%)	$1,082 (89%)	$1,104 (83%)
Georgia	$329 (48%)	$315 (55%)	$797 (66%)	$885 (67%)
Kentucky	$371 (55%)	$308 (54%)	$782 (64%)	$850 (64%)
Louisiana	$415 (61%)	$357 (62%)	$803 (66%)	$885 (69%)
Mississippi	$273 (40%)	$202 (35%)	$575 (47%)	$659 (49%)
North Carolina	$309 (45%)	$316 (55%)	$809 (67%)	$890 (67%)
South Carolina	$252 (37%)	$286 (50%)	$732 (60%)	$778 (59%)
Tennessee	$349 (51%)	$317 (55%)	$849 (70%)	$916 (69%)
Virginia	$422 (62%)	$450 (78%)	$970 (80%)	$1,064 (80%)

Source: U. S. Department of Commerce, *Survey of Current Business*, Volume 28, Number 8 (August 1948), pp. 17-19.

The fact that the level of income still remains low in relation to population is due largely to the huge supply of unskilled labor and the reliance of the population upon agriculture, particularly cotton. Too many workers are seeking jobs in too few industries. More intensive utilization of cotton picking and other modern machines will undoubtedly aggravate this condition. The best remedy lies in the growth and development of

industries, especially those which depend upon the products of the soil. This would directly provide higher paying jobs for some of the population and at the same time help to raise the income of the rest by encouraging a better balanced agriculture than at present. Should such development fail to materialize, the only alternative seems to be a continuation of out-migration to other sections.

EXHIBIT VI. Percentage Distribution of Total Income Payments, 1929–1947.

Area	1929	1940	1945	1945	1946	1947
U.S.	100%	100%	100%	100%	100%	100%
11 Southeastern States	10.51%	11.92%	13.2%	14.35%	14.59%	13.56%
Alabama	0.97%	1%	1.29%	1.3%	1.26%	1.25%
Arkansas	0.68%	0.65%	0.76%	0.76%	0.78%	0.72%
Florida	0.84%	1.19%	1.56%	1.56%	1.48%	1.37%
Georgia	1.16%	1.3%	1.56%	1.58%	1.44%	1.46%
Kentucky	1.17%	1.16%	1.21%	1.26%	1.25%	1.25%
Louisiana	1.04%	1.12%	1.32%	1.28%	1.19%	1.2%
Mississippi	0.66%	0.58%	0.78%	0.78%	0.7%	0.73%
North Carolina	1.17%	1.49%	1.68%	1.53%	1.78%	1.72%
South Carolina	0.53%	0.76%	0.84%	0.82%	0.83%	0.8%
Tennessee	1.10%	1.22%	1.77%	1.59%	1.86%	1.52%
Virginia	1.19%	1.49%	1.71%	1.71%	1.86%	1.58%

Source: U.S. Department of Commerce, *Survey of Current Business*, Volume 28, Number 8. August 1948, p. 12.

Sources of Income

An analysis of the composition of income payments confirms the view that the South relies too heavily upon farm income and government benefit payments. The United States Department of Commerce divides income payments into four broad classifications: (1) wages and salaries, (2) proprietors' income (the profits of unincorporated businesses and farmers), (3) property income (dividends, interest, net rents, and royalties) and (4) other income (public assistance payments, government pensions, direct relief, and social insurance benefits).

The absence of extensive industrialization in the South is apparent from the proportion of total income attributable to wages and salaries. For the entire nation wages and salaries accounted for 63% of total 1947 income payments, whereas the Southern states realized less than 58% from that source.

In the same year, however, the South derived over one-fourth of its income from farming and unincorporated (mostly commercial) establishments, while the country as a whole secured only one-fifth of its total income payments from similar channels. Agriculture in particular accounts for the larger percentage of proprietors' income in the region.

The smaller volume of investments in the South is responsible for the unimportance of property income as a contributor to total income payments. As shown in EXHIBIT VII income received from dividends, interest, rents, and royalties represented only 8% of 1947 income for the South, compared with 10% for the entire 48 states. The relative decline in importance of Southern property income from 1929 to 1947 was, however, less severe than that for the nation as a whole, indicating that while the accumulation of investment capital in the South is a slow, arduous task, some improvement has occurred. In 1929 Southern investments produced a return of $1.6 billion. By 1947 the return on all investments in the South had increased to $2.0 billion.

The expansion of government programs over the past 15 years resulted in the growing importance of other income as a factor in total income payments. Other income in the South, as well as in the balance of the country, accounted for only 1% of total income in 1929. In 1947, however, other income was responsible for 6% of income payments in the entire United States and 8% of income payments in the South. Virginia was the only Southern state which relied less upon government benefits than the country as a whole. In about half the Southern States government payments contributed more to the total income than was contributed by dividends, interest, rents, and royalties.

EXHIBIT VII. Type of Income Payment, 1929 & 1946, Percentage Distribution.

	Wages & Salaries		*Proprieters' Income*		*Property Income*		*Other Income*	
U.S.	**1929**	**1947**	**1929**	**1947**	**1929**	**1947**	**1929**	**1947**
11 Southeastern States	63.2%	62.8%	16.7%	20.4%	12.5%	10.5%	1.3%	6.9%
Alabama	59.0%	57.8%	27.3%	26.6%	12.4%	7%	1.3%	7.7%
Alabama	59.7%	57.4%	28.7%	27.7%	10.3%	6.3%	1.1%	8.8%
Arkansas	49.1%	46.3%	39%	36.7%	10.7%	6.3%	1.6%	8.8%
Florida	64.2%	60.3%	15.1%	21.8%	19.6%	7.9%	1.2%	7.6%
Georgia	60.7%	60.7%	27.6%	23.8%	14.7%	6.6%	1%	7.9%
Georgiay	56.6%	54%	27.3%	26.2%	14.2%	9.4%	1.9%	7.6%
Louisiana	61.3%	62.5%	23%	21.4%	14.6%	8.8%	1.1%	7.8%
Mississippi	43.6%	41.8%	44.8%	41.2%	10.5%	6.6%	1.1%	10.3%
North Carolina	60.1%	56.9%	26.9%	28.2%	12.1%	7.6%	0.9%	6.7%
South Carolina	60.7%	62.2%	30.2%	23.6%	6%	6.3%	1.1%	7.7%
Tennessee	60.4%	57.3%	25.5%	26.1%	12.5%	8%	1.6%	8.6%
Virginia	64.8%	64.8%	22.2%	20.8%	12.7%	6.6%	1.2%	5.9%

Source: Derived from data appearing in the U.S. Department of Commerce, *Survey of Current Business*, Volume 28, Number 8 (August 1948) p. 21, and Volume 25, Number 8 (August 1945) pp. 17 and 18.

The lack of balance (judging by comparison with other regions) between the various kinds of income payments in the South is shown in extreme form in Arkansas and Mississippi, which received more than one-third of their 1946 income from unincorporated businesses and farming. In Mississippi particularly, proprietors' income was almost as significant as wages and salaries in the composition of total income payments. Both states received approximately one-half of their income payments from proprietors' income and government benefits combined. The net result is a lower standard of living.

Correcting that imbalance requires a set of interdependent moves: Wages and salaries can only be raised effectively by increased and more diversified industrialization. (It is not enough to raise minimum wage levels by

legislation, which actually may impede the necessary development; the important thing now is to get the right kind of industries started and put more of the population to work in them.) But greater industrialization requires more investment which, if forthcoming in part from within the region, would automatically raise property income. An integral part of the same program would be less dependence on agriculture as now practiced, with consequently less need of government benefits.

The matters of investment and government aid deserve an additional comment or two at this point. The region itself is hardly prosperous enough at present to supply very much of the needed capital—to lift itself by its own boot straps. Some of the stimulus must come from the outside. Not only might it be to the advantage of more businessmen elsewhere to seek profitable employment for their capital in Southern branch plants or new ventures; but, even more important, those now accustomed to withdrawing wealth from the area in the form of profits might gain by reinvesting that income at its source, whether it be directly in expanding facilities for industrial processing or indirectly providing educational opportunities for the end purpose of making better workers. By so doing they would in fact be sowing the seed of increased profits for the future.

So far as government assistance is concerned, the character is more important than the quantity received. In fact such payments, if not properly undertaken, can actually operate to retard the economic progress of the region instead of enhancing it. If a Southern farmer receives benefit payments or subsidies on his cotton acreage, he will be encouraged to continue to plant cotton instead of participating in a movement to industrialize the region. On the other hand, if government benefits are used for education purposes, reforestation, or soil conservation, they are more likely to be of lasting benefit to the area, more likely to enable the individual states to carry through the development on their own, in line with the desire for noninterference on the part of the Federal Government reflected in the "state's rights" movement.

Dependence on Agriculture

The situation is worse than the figures cited above indicate. The agricultural income payments which account for so large a proportion of total Southern income represent very low per capita earnings. In 1939 the

per capita income from agriculture averaged $537 for the country as a whole. In the South the per capita income from the same source amounted to only $228 — despite government purchases, price support, and subsidies. (Government income payments, including payments to farmers, accounted for almost 22% of the 1946 total income of the South but only 17% of the cash income of the entire nation. This differential is attributable largely to the assortment of farm benefits received by Southern farmers.)

The preponderance of field crops like cotton and tobacco explains the low return. North and South Carolina offer prime examples. The former receives 77% and the latter 81% of farm income from field crops, whereas for the country as a whole field crops account for only 31% of total farm income. During the year 1940, 64% of all Southern farmers lived, or tried to live off cotton and tobacco crops.

The reliance on cotton is particularly serious. The declining importance of the United States in the world cotton market, plus the general condition of overproduction (brought on in part by government price support), seems to point to a gradual deterioration in the economic position of the Southern cotton farmer. In every year since 1933 the total tonnage of cotton produced outside the United States (Egypt, India, Brazil, Peru, and China) has exceeded domestic production. Normally, cotton production exceeds consumption in two out of every three years. The economic instability of the Southern cotton farmer arising out of overproduction can be resolved in only one of two ways: (1) the development of new industrial uses for cotton or (2) a curtailment of cotton production through an extensive program of crop diversification, or both. If the State of Mississippi, for example, were to divert 40% of its farm acreage to pasture land, total farm income would be appreciably greater.

An encouraging trend toward crop diversification has developed in recent years. North Carolina farmers have turned to soybeans as a profitable substitute for cotton and tobacco. In Alabama and Georgia peanuts and similar crops with a wide variety of commercial uses could easily supplant utter dependence upon cotton. Movement away from cotton in the South was noted in a recent article appearing in the *Wall Street Journal*, July 6, 1947. It was estimated that only 21.5 million acres were planted to cotton in 1947 with an indicated yield of 11.5 million bales. Twenty years ago 40

million acres had been devoted to cotton, but their yield in 1927 was only 13 million bales. The decline in cotton acreage apparently resulted from the shift to other crops in areas not particularly suited to cotton. At present cotton production is largely concentrated in the rich delta of the Mississippi River. The uplands are being devoted more and more to diversified crops (U.S. Department of Agriculture, *Agricultural Statistics — 1941.* Washington, Government Printing Office, 1941, pp. 37~39.).

The insignificant sweet potato has risen from obscurity to third place among the cash crops produced in Louisiana. In Georgia total cotton acreage has declined more than 75% in less than 25 years. Truck farming and cattle raising have developed into profitable ventures for many former cotton farmers. Income from livestock production in Arkansas alone has risen from 12% of total income payments in 1925 to 42% in 1945. Truck farming as a possible alternative to cotton, and also to tobacco, should be given ample consideration in any program of agricultural diversification. In this respect the other Southern states would do well to follow the example set by Florida. Large truck farms would provide the assortment of food that the region needs and at the same time furnish thousands of workers with the financial means to consume the food produced.

It is probably fortunate, on balance, that a movement of cotton production away from the South has been gaining momentum. More cotton is being produced, and probably will continue to be produced, in western Texas, New Mexico, Arizona, and California. This area is well suited to large-scale cotton farming because its level terrain permits a high degree of mechanization. Indeed, more extensive use of mechanized farm equipment is absolutely essential if the United States is to continue to compete with foreign producers in the world cotton market (Charles T. Taylor, "Some Economic Consequences of Federal Aid and Subsidies to Southern Agriculture," *Southern Economic Journal*, Volume XIV, Number 1. July 1947, p. 69.). The importance of farm machinery to efficient and economical operations cannot be emphasized too strongly, for one mechanical cotton picker can do the work of fifty field hands. If machines were substituted for hand picking on only one-half of the South's total cotton acreage, it would result in an over-all saving of 300,000 man-years of labor (George H. Aull, "Employment Prospects in Southern Agriculture," *Southern Economic Journal,* Volume XIII, Number 4. April 1947, pp. 384 and 385.).

Anything which tends to raise the level of the South's per capita income from agriculture of course helps toward the solution of its economic problem. But reducing the extent of dependence on such income, which is the logical counterpart, is even more fundamental. The recent improvement in economic conditions in the South could be extended by further expansion of activities into new fields. More home grown, albeit small, manufacturing ventures undertaken by Southern entrepreneurs would lure workers away from the farms and bring the farm-factory labor ratio into closer proximity with the rest of the nation. And of course it is in this connection that western and northern industrialists would help the South along with themselves if they decided to secure greater operating efficiency, expanded markets, and increased long-run profits by vigorously pursuing a policy of broadening the geographic distribution of their manufacturing facilities to include the South. Several large industrial organizations have already embarked upon a program of decentralization. The United States Steel Corporation, to cite a typical case, recently narrowed the differential between pig iron and steel production at Birmingham (John Van Sickle, *Planning for the South*. Nashville, Vanderbilt University Press, 1943, p. 98.).

A greater production of synthetic textiles, for instance, could help relieve the lack of diversification in the cotton-growing states. Of the 13 million bales of cotton grown annually in these states, 5 million are exported. Loss of a substantial portion of the world cotton market would result in widespread unemployment among the rural population. Domestically, too, the postwar-outlook for cotton is far from bright. The strong competition afforded by rayon in the production of tire casings and in other fields is bound to have a serious effect upon future cotton consumption. Although from 1920 to 1940 domestic consumption of cotton doubled, in the same period the consumption of rayon increased fivefold. The gains made by rayon manufacturers during and after World War II have been even more remarkable. Development of a rayon industry in the South could result in continuous employment of tens of thousands of cotton workers who might otherwise be unemployed.

To a large extent, the same conditions exist in the states which rely primarily upon tobacco. The South can produce about 50% more tobacco than the world can consume (U.S. Department of Agriculture, *Agricultural Statistics—1943, Tobacco Situation.* Washington, Government Printing

Office, 1943, p. 16.). Economic chaos in times of depression could easily be averted by diverting unessential farm labor to local factories engaged in the production of paper, pulpwood, and furniture. A better balance between industry and agriculture would prove helpful to the Southern economy and hence to the national economy as well, an economic crisis in one region which requires government or other assistance may in fact act as a drain on other regions. Widespread unemployment in the South because of inadequate economic diversification has a dual effect upon businessmen. Not only does it cause the loss of business profits, but it also requires the support of business through taxation in order to combat the condition.

Pattern of Development

As already suggested in connection with the diversification of agriculture, the South's natural resources would seem to be utilized best to the extent that they can be tied in directly with the developments of local industries. It seems only common sense that, just as the possibilities of practical industrial application should guide agriculture and other raw material producing activities, so the existence of specific natural resources should suggest the kinds of industries that would be both most helpful in raising the South's standard of living and most likely to secure a profitable reward for their investors and managers.

Natural Resources

Nature has given the South an abundance of physical resources, but nature is constantly exacting its toll upon the area's richest inheritance, fertile soil. The action of the elements on the South's rich farmlands has created a problem which becomes more acute with the passage of time. It has been estimated that a single windstorm can cause the loss of 39 tons of top soil from an acre of land. The loss to the nation as a whole due to the erosion of the soil has been placed at $4 billion yearly (National Resources Planning Board, *Regional Planning — The Southeast*. Washington, the Board, 1942, Part XI, pp. 83-89.). More than three-fifths of this burden is borne by the Southern portion of the United States. Approximately 97 million of the nation's 160 million acres of farmland which have been rendered virtually useless as a result of erosion are situated in the South.

Reforestation and flood control are sorely needed to hold back the swollen rivers in the area. Terracing would also help immeasurably in this respect. The lasting benefits to be derived from such control are readily apparent from the degree of rehabilitation already achieved by the TVA. It should be noted, however, that because it is interstate in character, the problem of soil erosion can hardly be combated successfully by an individual state or by a single section of the country.

The South is rich in other natural resources in addition to its soil. Its mineral deposits and timberlands could provide a solid foundation for any future industrial expansion, and much of the region's new industry will utilize these resources in coming years. Georgia and Tennessee, for instance, account for 45% of our domestic supply of barite; Alabama, of course, is rich in iron ore and coal; and several states have abundant clay deposits suitable for use in pottery making (Howard Odum, *Southern Regions of the United States*. Chapel Hill, The University of North Carolina Press, 1936, p. 39.).

Unfortunately, these endowments have not been used to the South's advantage in the past. North Carolina and Tennessee produce about 36% of the nation's feldspar, but nowhere in the South will one find an important manufacturer of glass, tile, enamel, or scouring powder — industries which use this basic raw material. Most of the rich deposits of bauxite, from which aluminum is obtained, are owned or controlled by persons outside the South. Practically the entire production of kaolin, fluorspar, and other valuable minerals are shipped out of the South to be processed in other sections of the country. The South, for its part, has been content to "eat the frosting and leave the cake." Forests have been burned and wasted, and careless mining has resulted in the abandonment of an inestimable amount of valuable coal in mines that can no longer be profitably operated.

Nevertheless, vast untapped resources are still available to contribute to extensive industrialization of the region, based on such advantages as plentiful hydroelectric power at low rates and the economy of processing close to the source of supply and shipping finished goods rather than raw materials. The South's job is both to encourage locally owned enterprises and to convince businessmen elsewhere that it can provide the right kind of labor force and satisfactory conditions generally for such activity. No

longer, then, would the South receive for its rich mineral deposits and other natural resources only an unimportant amount in wages paid to its unskilled and semiskilled labor for extracting the minerals, rather than the wages for converting this natural wealth into finished goods, and be required in return to pay in the cost of finished products substantial wages and profits to persons living outside the region.

Of all the natural resources available in the South, the forests may provide the greatest number of genuine opportunities. In 1944 the South produced more than 13 million board feet of lumber. This section alone accounted for approximately 40% of total production in the United States. In the brief space of five years, from 1939 to 1944, Southern lumber production has increased by almost 25%. One of the greatest advantages of Southern forests is the fact that trees grow faster there than in other sections of the country. Admittedly, even faster growth is characteristic of adjacent Central American countries, and there is much to be said in favor of importing cheaper lumber for processing in Southern factories (thus incidentally helping the development of Southern ports), but the fact remains that the South still has extensive forests; and, if controlled and managed by American standards of efficiency, they should continue to be able to provide raw materials at closely competitive costs *vis-a-vis* Central America and at much better than competitive costs in relation to forests in northern and western sections of this country.

The point is that greater control than at present must be exercised, by local governments if not by federal authority, over the area's 119 million acres of woodland. Only 7% of the woodland is publicly owned. About half is controlled by private lumber, paper, insurance, and railroad companies. Almost 44% of the timberland is owned by farmers; and, unfortunately, many of them are inclined to neglect this valuable possession. Protection against forest fires is inadequate, and year after year much valuable timber is lost as a result. Furthermore, although some reforestation is now practiced on local initiative, it is far from general, and too great a proportion of what is done is in soil-exhausting trees.

More judicious utilization of Southern forests could easily create additional employment in vastly enlarged paper, furniture, rayon, and plastic industries. Thus lumber can aid greatly in bringing the income of the South

closer to that of other sections of the country, particularly if the poor training and insufficient education which would prevent many Southerners from occupying highly paid positions in such industries could be overcome.

Rate of Expansion

The rate of industrial expansion has been much slower in the South than in any other section of the United States. As has been indicated, the region still remains predominantly agricultural. At the turn of the century, 67.8% of the working population of the nation was engaged in nonagricultural pursuits, while only 49.4% of Southern workers were similarly employed. By 1940 the percentage of nonfarm labor had risen to 81.2% for the country as a whole and 63.8% for the South. On the basis of these statistics one might conclude that the South is half a century behind the balance of the nation in industrial growth.

Nevertheless, industrial activity increased substantially in the Southern region during World War II. Based on wages and salaries paid by 19 leading manufacturing industries, the rate of growth in Southern industry from 1940 to 1946 was greater than that for the country as a whole (see EXHIBIT VIII). During this period, manufacturers' payrolls increased by 158.5% in the South and by only 134.5% in all sections of the nation combined. In all but four industries (tobacco; printing and publishing; iron and steel; and stone, clay, and glass) the rate of expansion in Southern payrolls exceeded that of the entire nation.

The average industrial worker in the South increased his gross annual wages from $1,019 in 1939 to $1,798 in 1944, a gain of 77%. For the entire nation, on the other hand, wages and salaries during the same period increased by only 69% — from $1,360 to $2,302. The fact that, undoubtedly, the favorable progress of the South in this respect was due in some measure to a narrowing of the wage differential between it and other regions, rather than solely to expanded activity, does not lessen the significance of the progress that has been made.

EXHIBIT VIII. Distribution of Wages and Salaries by Specified Manufacturing Industries, 1940 & 1946. *(in millions of dollars)*

Manufacturing Industries	1940	1946	% Increase 1940–1946
Food and Kindred Products	$151	$395	162%
Tobacco Manufacturing	50	98	187%
Textile Mil Mill Products	220	1,024	141%
Apparel	55	182	187%
Lumber & Timber (Basic Products)	52	343	181%
Furniture and Finished Lumber	54	117	136%
Chemicals	109	321	194%
Priroleum and Coal Products	21	72	243%
Chemicals	8	43	438%
Ruather	16	43	169%
Stone, Clay, and Glass	44	93	111%
Iron and Steel	101	210	108%
Nonferrous Metal Products	17	68	300%
Nonelectrical Machinery	24	82	242%
Electrical Machinery	4	19	375%
Transportation Equipment	53	172	225%
Miscellaneous Manufacturing	9	26	189%
Total Southeastern Region	**$1,417**	**$3,619**	**155%**
Total United States	**$15,372**	**$36,045**	**135%**

Source: Derived from data appearing in the U. S. Department of Commerce, *Survey of Current Business*, Volume 27, Number 8. August 1947, pp. 15 and 16.

The recent growth of Southern industry can be gauged to some extent by the influx of new manufacturing enterprises into Georgia and Alabama. In Georgia alone almost 1,400 new manufacturing enterprises have been established since September 1944. Most of these are engaged in the

manufacture of wood pulp, food, glass, stone, chemicals, textiles, and finished metal products and have located their plants in small towns. In less than two years 126 new industrial companies have constructed manufacturing facilities in Alabama. They will operate in about 65 different communities and will manufacture at least 50 different products. It is expected that these new establishments will employ approximately 12,000 persons. Some of the new plants located in Alabama are owned by such industrial "giants" as B. F. Goodrich, Allis Chalmers, and Hazel Atlas Glass.

Although the rate of industrialization has increased in the South, the region still does not possess the degree of diversification necessary to a well-balanced economy. For example, 1946 wages and salaries paid to textile workers accounted for more than one-fourth of total wages and salaries in the region. Of the $3.6 billion of wages received by Southern labor, approximately $1.0 billion was paid to employees of textile mills. In fact, wages paid to these workers exceeded combined wages paid to all workers in iron and steel; electrical and nonelectrical machinery; nonferrous metals; transportation equipment; stone, clay, and glass; leather; rubber; petroleum; and paper. To put it another way: even as recently as 1946 the South accounted for as much as 40% of the nation's textile payroll but for only 5% of the national payroll in iron and steel, machinery, nonferrous metals, and transportation equipment.

In order to achieve the proper diversification, it will be necessary for manufacturers to forget the obvious and immediate motive which has led many of them Southward, the desire for cheaper labor and lower operating costs, and to concentrate instead on the longrun objective of building the Southern market into an effective demand for billions of dollars worth of new houses, home furnishings, automobiles, and other durable goods. However real may be the possibility of securing cheap labor and lower operating costs, the purpose involved does not result in bringing in the type of industries that will bolster the South's over-all development. For the production of what goods is the region peculiarly suited by reason of climate, resources, or skills?—that is the consideration which, if followed, will produce lasting benefits for the South, maximize the contribution of the South (as of any region) to the national economy, and thus in turn reward the individual enterprises which have taken that broader point of view.

Labor Productivity

The question of skills brings us to what is inevitably a crucial point in any discussion of the South's industrial prospects: labor productivity. To make an absolutely accurate comparison of labor productivity among different sections of the country is clearly impossible because of regional differences in equipment, production methods, supervision, job content, and work load. Despite this difficulty it has been frequently argued that Southern labor is less efficient than labor in other regions and that this factor in itself justifies prevailing differentials in wage rates.

Southern laborers do receive from 10% to 25% less wages for performing essentially the same type of job as workers in other sections of the country. (Richard A. Lester, "Effectiveness of Labor: South-North Comparisons," *Journal of Political Economy*, Volume LIV, Number 1. February 1946, pp. 60~75.). But undoubtedly one important reason for the existence of such wage differentials lies in the relatively larger proportion of nonunion labor in the South. Where the South occupies a dominant position in an industry, such as in textiles, apparel, or pulp and paper, the regional wage differential tends to be narrower than in other industries in which only a small portion — of total production originates in the South (U. S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, Volume 63, Number 4. October 1946, p. 516.).

The fact is that most of the wage differentials are not based on relative productivity. Close observers are aware that a large segment of the Southern labor now at work in mills is at least as efficient as labor in the North. Allowance must be made for the obsolete and inefficient machinery often used in Southern plants. Given equally efficient equipment, comparable working conditions, and sufficient training and time to acquire skills, the productivity of Southern labor should compare favorably with that of northern workers.

The solution to untenable wage differentials is one of broadening the industrial base of the South rather than of forcing a change in rates through legislation or union activity, which might have the actual effect of retarding the fundamental industrialization that is needed and thus reducing labor income. Indeed, as one example, the possible imposition of a national minimum wage of from 65 cents to 75 cents an hour involves a serious

threat to continued industrialization of the South. Even today a large proportion of Southern labor receives less than 75 cents an hour. Should there be a postwar deflation with a protracted decline in wage rates, the percentage of Southern laborers earning more than 4% cents an hour would decline almost to the vanishing point. Thus, to impose by law a minimum wage of 75 cents on an area that is notoriously poor in terms of capital and management would inevitably discourage further industrialization and force labor back into agriculture which is not covered by the Fair Labor Standards Act (John Van Sickle, "Geographical Aspects of a Minimum Wage," *Harvard Business Review*, Volume XXIV, Number 3. Spring 1946, p. 277.).

Although manufacturing activity has increased sharply during the war, it is still too early for any optimistic forecasts on postwar industrial production in the South. The war demonstrated the ability of Southern farm labor to effect a smooth transition from farm to factory and to assume the greater responsibilities involved in such a shift. Textile mills employed 45,000 more persons during the war than had been employed in 1939. Whether more workers leave the farms and take their places in industry, producing goods essential to a higher standard of living; whether expansion of manufacturing activities In turn stimulates the growth of transportation, trade, and service industries; levels generated by such a movement in turn provide the basis for permanent improvement in living standards — all depend on whether the investment will be forthcoming which would create a wider range of occupational opportunity.

Capital and Management

Tremendous amounts of capital are necessary to achieve a large-scale industrial expansion in the South. After the initial capital investment has been provided, the resultant increase in real wealth (if it is permitted to remain within the region) would contribute the financial resources needed to promote additional increases in industrial productivity.

Long-term funds for industrial development are usually secured through investment bankers, life insurance companies, and similar institutional investors. Such investing institutions are, on the whole, foreign to the South. For example, 25 large insurance companies control 87% of the life

insurance assets of the nation; none of these 25 companies is located in the South (John B. McFerrin, "Resources for Financing Industry in the South," *Southern Economic Journal*, Volume XIV, Number 1. July 1947, p. 46.). In 1945 the admitted assets of Southern life insurance companies amounted to only 2.90% of the nation's total. There are only 3 Southern life insurance companies with assets of more than $100 million.

The same conditions exist with respect to investment banking in the South. According to data published by the Securities and Exchange Commission, the underwriting participation of Southern investment bankers in all new security issues offered in 1939 amounted to only one-seventh of one per cent. The South will have to promote the growth of the investment banking business if it expects a large and steady flow of long-term capital for industrial expansion to be forthcoming from. within the region. Southern commercial banks have attempted in the past to support both industry and agriculture within the region in essentially the same manner in which they are supported in other sections of the country. That they are doing their part so far as their assets permit is indicated by the fact that in 1945 their figures for loans to commerce and industry (5.9% of total bank assets and 34.1% of all loans and discounts) were practically identical with the comparable figures of banks outside the South (6.0% and 36.8% respectively).

The trouble is that the total assets of Southern commercial banks are disproportionately small in relation to the region's population and income. Some encouragement, however, can be taken from the growth in Southern bank assets In recent years. During the 10-year period ending in 1945 Southern banks increased their assets by 930%, whereas the rise in commercial bank assets for all other regions combined was slightly less than 200%. Nevertheless, the comparison of bank assets with population, and also with present income, would seem to indicate that the South can well support a larger banking system, with consequent benefits to industry.

In any event, it seems clear that the South can hardly begin the needed expansion of industry with the funds at its own disposal. It must have help from northern and western industrialists. There is no point in arguing whether the present state of affairs is the result of domination by "Yankees" or whether it may not have been caused at least in part by stiff-necked

independence on the part of Southerners themselves; the Civil War has lasted for many long years, and surely both sides have been partly right and partly wrong. Now is the time for peace — and for cooperation, based on mutual self-interest. But it should be understandable if the South, in arranging for investment by those outside the region, should want to protect its stake in the future and make terms which will permit its eventual participation in the ownership and management of the enterprises thus started.

The question of management is a particularly vexing one. The South distrusts and resents industrial installations when all the operating decisions are made in main offices located elsewhere or by men sent in whom it regards as aliens. But it cannot itself now provide enough of the high-caliber management which is indispensable for success. Here, again, we are brought back to the need for technical training and education in general, If industrial development can once be initiated on a large scale, the problem becomes one that the South can solve itself, for it will then be able to afford the costs of proper educational facilities, But in the meantime, although of course there is much that it can do to help itself that It is not now doing, it must depend in large part on outside assistance — presumably in large part from the Federal Government.

Conclusions

From all indications the Southeastern region of the United States appears to be at the point where it is ready for a full-scale industrial expansion such as it has never experienced in its entire history. Basic conditions have improved during the war, and the South is stirring. Before widespread industrialization can take root, however, numerous existing regional problems must be overcome.

Wholesale migration from the South, particularly in the 25-34 year age grouping, must be checked. The alarming rate of Southern migration is due largely to the lack of opportunities within the region. Insufficient opportunity is caused in large measure by inadequate education but basically is a complex problem not easily stated nor easily solved.

The first significant step necessary to the achievement of economic wellbeing is an improvement in the conditions of education. Specifically,

for the South to be more nearly comparable to other regions, more children should be provided with education and training beyond the eighth grade; the school term must be lengthened in most states; and the level of classroom work must be improved, with higher standards for teachers. Because of the poor economic conditions prevailing in most Southern states, the task of educating the region's unusually large school-age population may be beyond the financial reach of the community. Federal assistance for a few years may be the only practical solution to this problem.

Better training and education would ultimately be reflected in improvement in the region's substandard level of per capita income. It would permit many Southerners to qualify for higher paying jobs which require a greater degree of skill. Eventually, the present large number of unskilled and semiskilled workers would be reduced, and many persons who would normally seek employment as farm laborers would be able to secure better opportunities in industry. The natural consequence of this development would be an increase in "value added in manufacture" for the region as a whole.

Careful planning and control of the South's rich natural resources must be actively undertaken by both private and public interests. Improper use of raw materials and wastage must be checked.

In order to secure a higher standard of living in the South it will be necessary to enlist the aid and cooperation of all residents as well as all groups outside the region who are interested in the general prosperity of the nation. Manufacturers, distributors, and workers in other sections of the country must be brought to realize that they are losing billions of dollars in additional income because the South cannot afford to buy their goods.

Efforts to establish new industries or to expand existing ones must be encouraged. Development of the Southern ports, which offer economies to manufacturers who buy from and sell to the Latin American countries, is an important part of the same picture — in effect, both a kind of industry itself and also a resource to be used by other industries. If new manufacturing plants can be attracted to the South, the widespread exportation of natural

resources will cease, and the area will be brought closer to a state of self-sufficiency, where it can carry its own burdens. New enterprises will also reduce the region's dependence upon textiles for its industrial support and will provide a degree of diversification which is so essential to a well-balanced economy.

The few large Southern industries will and for a time must continue to seek capital for expansion from other regions. In the meantime, the South should attempt to enlarge its commercial banking facilities and promote the expansion of a home-grown investment banking organization.

Only when the South succeeds in producing on a scale comparable to that of other sections of the country will it be able to enjoy a high standard of living and contribute its proper share to the prosperity of the country.

Government officials, economists, and businessmen readily admit that a high level of business activity and a high standard of living in Europe, Asia, or South America are beneficial to the United States. This philosophy is largely responsible for the billions of dollars which have been poured into investment and direct aid in foreign areas during the past quarter century. If such reasoning is true on an international scale, it is equally true with respect to regions within a nation. Had only a fraction of that money been invested in the Southeastern section of the United States, the results undoubtedly would have been more enduring than those achieved in Europe.

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